Weekly Economic Outlook

Monday, 15 June 2020

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The Second Wave?

It has finally come – the correction in share markets and risk sentiment that we were waiting for.

The trigger appears to have been a rather gloomy assessment of the outlook from the US Federal Reserve last week, which served as a reminder that while the economy is recovering, there remains a great deal of uncertainty for the outlook.

A rising number of new cases in some US states has also raised concerns about a new wave of COVID-19 infections, although it appears that plans to continue re-opening the economy are continuing as scheduled. A new cluster of cases in Beijing also highlights the fact that the risk of COVID-19 negatively impacting economic activity remains.

We have been noting that financial markets were under-estimating the level of risk to the outlook over the past few weeks, so a pullback in risk appetite does not come as a surprise. The ASX200 has fallen 5.4% since last Thursday. A correction is still likely underway in the Australian dollar, which has fallen from a peak of 70.6 US cents on June 11, to currently trade at 68.3 US cents today.

Financial markets are expected to remain volatile while risks to the outlook remain. There is still good news in that the economy is rebounding from its lows, and the downturn is now expected to be less pronounced than previously expected. However, there remain headwinds and the likelihood of an uneven recovery. COVID-19 will continue to be cloud over the outlook for some time.

A reflection of this uncertainty is the difficulty in gauging the impact on the labour market in the wake of easing COVID-19 restrictions. Indeed, there was an unexpected increase in jobs in the US in May. As restrictions have lifted, a number of businesses have resumed some operations which would suggest a range of workers returning back to work.

In Australia, a large number of returning workers would have been receiving the JobKeeper allowance during the shutdown period so this may not translate into a higher number of employed.

Weekly payroll data suggested a further decline in jobs in early May, although the rate of decline has lessened. Indicators from other surveys of businesses also point to employment conditions improving, but remaining extremely weak.

On balance, we estimate a 150k fall in jobs in May, following a 594.3k decline in April. The unemployment rate is expected to rise from 6.2% to 7.4%. There is more than the usual uncertainty surrounding our forecast given the difficulty in estimating how COVID-19 restrictions have impacted the economy and the labour market. May's labour force data will be released this Thursday.

We will also receive weekly payroll data on Tuesday, which will provide some further clues to the state of the labour market over the course of May.

We expect that the unemployment rate will continue to rise further, although a worst case scenario is less likely to eventuate. Last week, Treasury Secretary Steven Kennedy noted a revision to Treasury's unemployment rate forecast to peak at 8% instead of 10% as previously forecast. We continue to expect the unemployment rate to peak near 9%.

Other key data locally includes the preliminary retail sales release for May, which will be released on Friday. Retail spending has been volatile of late, reflecting an initial surge due to stockpiling in March, followed by a significant pullback in spending as restrictions took full effect. We expect a rebound in May, but an ongoing trend of weaker spending is likely as consumers grapple with weaker incomes.

Finally, on Tuesday, the RBA will release the minutes of its monetary policy meeting held on June 2. The RBA highlighted at this meeting the possibility of the downturn being less pronounced than previously expected. Nonetheless, it also indicated that there was a high degree of uncertainty, and warned of long-lasting effects on the economy from the pandemic.

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Forecasts are detailed on the following page

Forecasts

Please note that due to the unprecedented nature of the coronavirus's impact on the economy and the rapid change of developments, there is greater than usual variability attached to these forecasts.

		2020			2021	
End Period:	**Close (June 12)**	**Q3 (f)**	**Q4 (f)**	**Q1 (f)**	**Q2 (f)**	**Q3 (f)**
Aust. Interest Rates:						
RBA Cash Rate, %	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW, %	0.10	0.10	0.15	0.20	0.25	0.25
3 Year Swap, %	0.27	0.30	0.30	0.35	0.35	0.40
10 Year Bond, %	0.91	1.00	1.00	1.05	1.15	1.25
US Interest Rates:						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.70	0.75	0.75	0.80	0.85	0.90
USD Exchange Rates:						
AUD-USD	0.6866	0.70	0.72	0.73	0.74	0.75
USD-JPY	107.38	106	106	107	107	108
EUR-USD	1.1256	1.13	1.14	1.15	1.16	1.17
GBP-USD	1.2540	1.26	1.27	1.27	1.28	1.29
NZD-USD	0.6445	0.65	0.65	0.64	0.65	0.66
AUD Exchange Rates:						
AUD-USD	0.6866	0.70	0.72	0.73	0.74	0.75
AUD-EUR	0.6100	0.62	0.63	0.63	0.64	0.64
AUD-JPY	73.72	74.2	76.3	78.1	79.2	81.0
AUD-GBP	0.5475	0.56	0.57	0.57	0.58	0.58
AUD-NZD	1.0651	1.08	1.11	1.14	1.14	1.14

	2019	**2020 (f)**	**2021 (f)**
GDP, %	2.2	-4.0	3.0
CPI (Headline), %	1.8	0.2	2.3
CPI (Trimmed mean), %	1.6	1.0	1.8
Unemployment Rate, %	5.2	8.3	7.1
Wages Growth, %	2.2	1.8	1.6

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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